Department of the Treasury

Franchise Fund

Visionary
Fee-For-Service Business
In the Federal Government

2003

ACCOUNTABILITY & ANNUAL REPORT

Department of the Treasury Franchise Fund

...committed to delivering cost effective and high quality administrative products and services

A Message From the Chairman

It is my pleasure to present the Department of the Treasury's Franchise Fund Accountability/Annual Report for Fiscal Year (FY) 2003.

Once again the business activities of the Franchise Fund have met or exceeded the expectations of our customers in terms of quality, timeliness, and cost in providing a variety of administrative services and products! We are, indeed, building momentum as we build our customer base, increase revenue, score highly on customer satisfaction, and provide exit avenues for customers who nearly always want to stay with us. Why? Our significant achievements in continuously developing our efficiencies while lowering our margins, generating significant value to the customer has gained us acclaim—not only internally to Treasury—but also externally to other agencies, and to the government as a whole.

While success is becoming the norm, the members of the Fund do not rest on our laurels. We understand the meaning of competitive forces. This report celebrates the seventh straight year (since inception) of noteworthy financial results, customer satisfaction and growth, and business performance objectives.

However, management challenges still abound. Requirements of competition, full-cost recovery, and self-sustaining operations, coupled with fast paced growth have created considerable requirements for finding new and better ways to add value for our customers. Addressing these challenges is critical to our continued success. As a franchise operation, we understand that we have a responsibility to provide leadership in all areas of government reform; from the delivery of administrative products and services to our internal business operations. As such, we relentlessly conduct ongoing reviews of our operations to identify improvements in not only how we deliver our services but to identify ways in which to improve productivity and reduce costs. This has brought our managers and employees closer as a team. Employee empowerment is not just a phrase for our group, it's who we are. We continue to realize that none of us is as smart as all of us.

The Treasury Franchise Fund consists of a remarkable group of dedicated and committed people relentlessly pursuing the goals and objectives of franchising and hence contributing to its success. Our greatest realization on a daily basis? We are nothing without our customers. Again, to all of our customers – we recognize that we must compete for your business everyday. Thanks again for your continued trust and confidence in our products and services.

Sincerely,

Barry Hudson

Barry Hudson
Chairman, Treasury Franchise Fund Advisory Board

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CORPORATE PROFILE

The Treasury Franchise Fund is an entrepreneurial governmental enterprise established to provide common administrative support services on a competitive and fully cost-reimbursable basis. The desired result is to have internal administrative services delivered in the most effective and least costly manner. The Fund's services/products are offered on a voluntary and competitive basis to promote greater economy (reduced costs), increase productivity and efficiency in the use of resources, and ensure compliance with applicable rules and regulations.

Since inception, the Fund has met or exceeded expectations related to financial results, customer satisfaction, and business performance objectives. This effort has achieved efficiencies and generated value internally to Treasury, externally to other agencies, and to the government as a whole.

Authorizing Legislation: The Government Management Reform Act of 1994 (GMRA) authorized six Franchise Fund Pilot Programs within the Federal government.

Founded: In May 1996, OMB designated the Department of the Treasury as one of the six Executive branch agencies authorized to establish a Franchise Fund Pilot Program.

Current Authority: The Treasury Department Appropriation Act of 1997 (PL 104-208) as amended provides the current authority for the Treasury Franchise Fund.

A LOOK AT OUR BUSINESSES

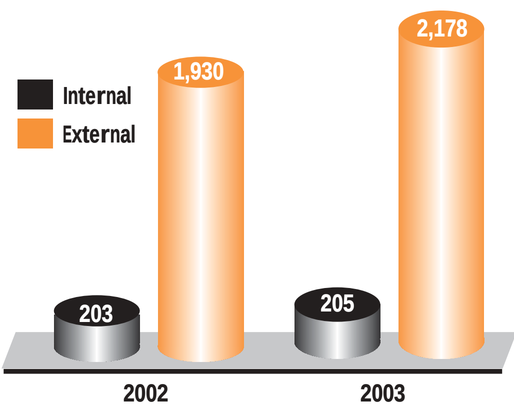
Current Profile

Employees: Over 500 people nationwide

Value Proposition: The Treasury Franchise Fund businesses have been leaders in redefining the processes and methods for delivering administrative products and services that combine streamlined processes, simplified rules, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Our efforts have resulted in significant dollar savings throughout the Federal government.

Customers: Approximately 2,400 customers representing almost every Federal agency. Total customers increased about 12% in FY 2003. (See graph below)

CUSTOMER GROWTH



Markets & Businesses

Financial Management & Administrative Support – providing full service, as well as system platforms, for accounting, travel, procurement, personnel, and facilities management. Businesses include: Administrative Resource Center.

Financial Systems, Consulting and Training - providing financial education, management consultation, organization diagnostics and facilitation, strategic planning, assessment of customer needs, development of customer service standards, reengineering key Federal systems and processes, and human resources development. Businesses include: Treasury Agency Services and Federal Consulting Group.

Consolidated/Integrated Administrative Management - providing a wide array of value-added, cost effective administrative services from IT to task support, through competitively awarded nationwide contracts. Businesses include: FedSource.

FedSource – Treasury's Expanded Nationwide Network

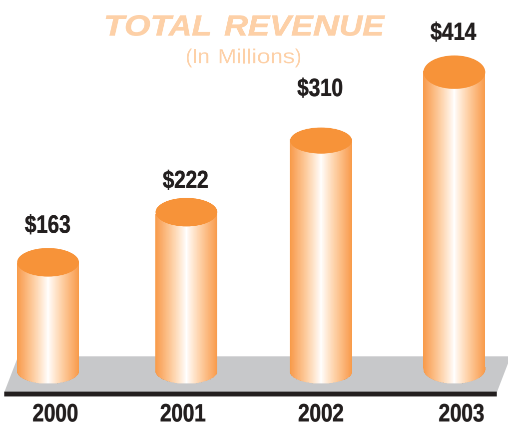
The Fund gained even more efficiencies in FY 2003 by consolidating several of its businesses in the Consolidated/Integrated Administrative Management service line. The Franchise Business Activities (FBA's) pooled their resources and combined back-room functions to create greater efficiencies for their customers. As a result, FedSource is now made up of a combined effort of nine FBA's working together with one energized vision to revolutionize the way government agencies procure services.

With its expanded nationwide network, FedSource provides a wide variety of services for its federal customers. FedSource is assisting federal managers and the key decision makers who run federal programs to speed up delivery and save the government money - all while meeting ever-changing federal guidelines. FedSource features an expert team that helps agencies define their needs and develop custom solutions that meet those needs.The goal of FedSource is to become the preferred contracting vehicle for the products and services today's federal agencies need.

The organization embraces a "Work Federal. Think Private." approach that focuses on responsiveness and service typically equated with best-in-class organizations. This philosophy allows them to help agencies achieve optimal results.

Corporate Highlights

The Treasury Franchise Fund continued its controlled growth in FY 2003. The Fund's total revenue grew to $414 million, representing a 34% increase over the previous fiscal year and demonstrating the continuing demand for the Fund's products and services (See graph below).



Although growth by itself is not inherently good, growth for the Fund results in increased competition throughout the government and lower administration costs. In other words, as the Fund grows the government works smarter and the taxpayer wins.

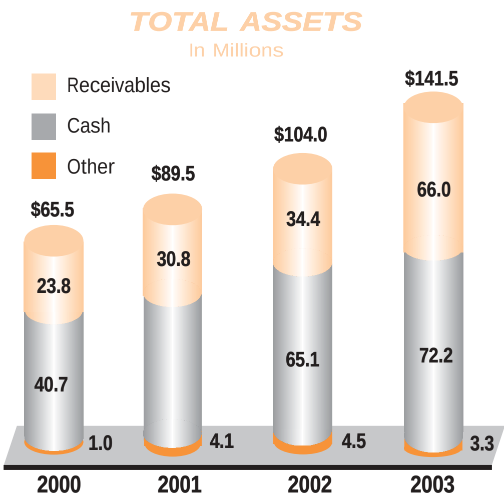
Federal Consulting Group

"Experienced federal executives committed to improving government. Self mastery, trust, honesty, integrity are the reasons I select the Federal Consulting Group to help us."

Department of Commerce

A Strong Balance Sheet

Total Assets, comprised primarily of cash and accounts receivables, increased by 36% to over $141 million (See graph below). This was primarily due to a $32 million increase in accounts receivable.



Another "Clean" Audit Opinion

To add assurance to the financial stability, the Fund has received its seventh straight unqualified opinion on the audit of its financial statements. The independent auditors provide separate reports each year focusing on three key areas:

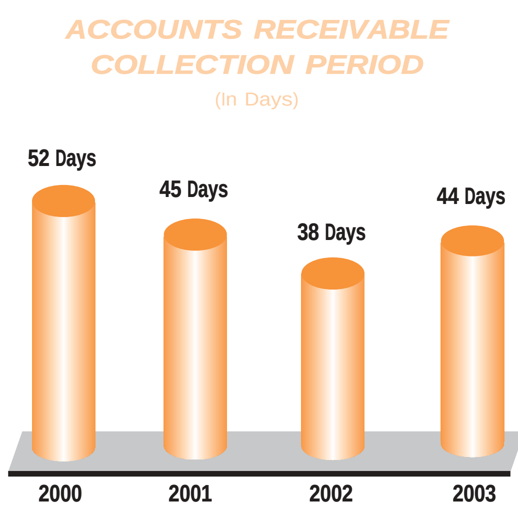
- Report on the Financial Statements
- Report on Internal Controls Over Financial Reporting
- Report on Compliance with Laws and Regulations

Cash Management Takes Center Stage

With the implementation of the OMB Business Rules for Intragovernmental Transactions the Fund's ability to manage their cash flow will become even more important. The new guidelines prohibit advance payments for intragovernmental service orders. Since the majority of the Fund's orders are for services, the new rules are having an impact on the businesses.

Over the years, the Fund had steadily increased the amount of business it performs via advances. The year-end advance balance has grown from as little as 1% of total sales in FY 1998 up to 12% in FY 2002. With the Fund's implementation of the OMB business rules, newer agreements do not contain advance payment provisions. As a result, the Fund ended FY 2003 with a little more than 7% of its total sales in the year-end advance balance. Since the Fund will not be able to collect the cash up front, it will have to rely on its billing and collection processes to ensure that adequate cash balances are maintained.

The Fund is ahead of the curve in their approach to cash management. It has already significantly streamlined the billing and collection process. This improvement is evidenced by the accounts receivable collection period (the average time it takes to turn earned revenue into cash). The Fund's benchmark for the accounts receivable collection period is 60 days, this includes 30 days for billing and 30 days for collecting. In FY 1997, the Fund's first year, the accounts receivable collection period was 86 days. The Fund had trimmed 48 days from this ratio to

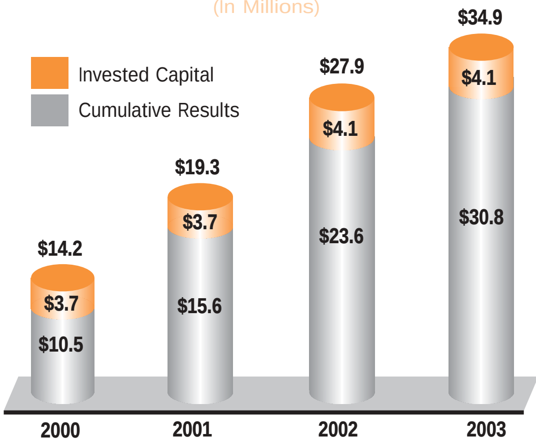


achieve an outstanding accounts receivable collection period of only 38 days in FY 2002. As use of advances is decreasing, the Fund expects the accounts receivable collection period to increase because more funds will be processed through the collection cycle after being earned. This has already begun to happen in FY 2003 as the Fund's accounts receivable collection period increased to 44 days (See graph on Page 6).

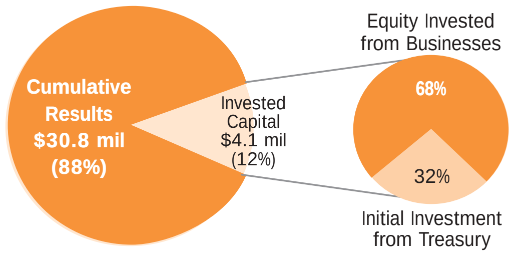
Reasonable Operating Reserve

The impact of the new OMB Business Rules makes the Fund's need to retain a reasonable operating reserve for cash flow purposes even more paramount. The Fund has sustained a controlled six-year expansion that has enabled it to develop a reasonable operating reserve. The operating reserve is critical to the health and stability of the Fund enabling it to (i) sustain downturns in business brought about by unforeseen circumstances, (ii) pay for system and process enhancements and (iii) maintain an adequate cash flow (as mentioned above). In FY 2003, the Fund's total equity grew to $34.9 million (See graph below). Cumulative results of operations since the Fund's inception total $30.8 million, which accounts for 88% of the Fund's total equity. The $4.1 million of Invested Capital represents $1.2 million initially invested by Treasury and $2.9 million invested by the individual businesses (See graph below).

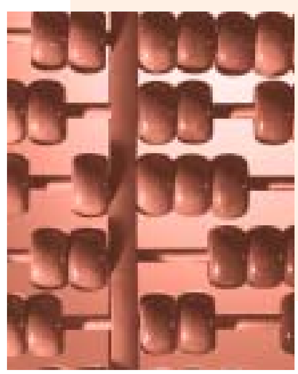
TOTAL EQUITY
(In Millions)



EQUITY BREAKDOWN



"Not everything that can be counted counts, and not everything that counts can be counted."
Albert Einstein



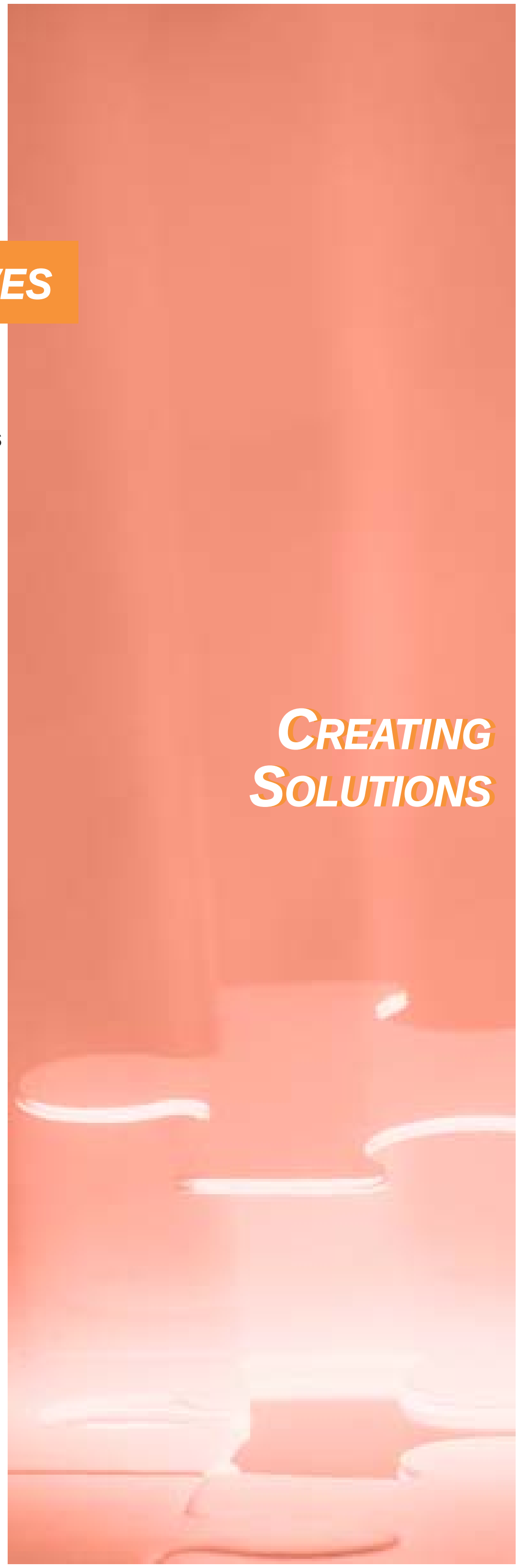
FRANCHISE OBJECTIVES

The franchising concept extends philosophies of competitive business enterprise into the delivery of administrative services, with the intention of reducing costs, enhancing efficiency, and improving financial management within the Federal government. Integral elements of this approach include emphasis on customer satisfaction, competition, success and failure as dictated by market forces, decentralization of authority and the incentive to excel. These elements are very much inter-related.

Customer satisfaction, whether in reference to lower cost, higher quality, or both, is the basis upon which the Fund competes. In a free market, the ability to compete effectively determines whether an organization ultimately survives, providing an inherent incentive to succeed. Thus, effective entrepreneurial management, or the ability to make optimum use of resources (lower cost) in order to satisfy customer demands (satisfaction), becomes the key to surviving and succeeding in a business environment.

The following highlights how the Treasury Franchise Fund is meeting franchising objectives:

- Promoting efficiencies in the delivery of administrative products and services
- Reducing duplication of effort
- Fostering competition
- Achieving full cost/self sufficiency
- Enhancing customer satisfaction.



Promoting Efficiencies in the Delivery of Administrative Products and Services

Once considered an oxymoron, government efficiency is significantly improved with the injection of competition among common administrative service providers. Inherent in the concept of franchising, competition will (i) increase the focus of service providers on the needs of the customer, (ii) introduce the need for market solutions instead of administrative bureaucracy, (iii) decentralize authority, and (iv) improve efficiency by helping program managers carry-out their missions in the least costly and most effective manner.

In order to remain competitive, the Fund has continued to find ways to reduce their operating (overhead) costs. Many customers have realized reduced pricing, rebates, volume discounts due to economies of scale and improved efficiency of administrative services offered. The Franchise Fund is able to give a price reduction when obtaining large orders because, in most instances, our operating costs remain the same.

Treasury Agency Services

"We were extremely impressed with how quickly and efficiently they comprehended the complexities of the Office of Federal Student Aid (FSA's) $60 billion a year program and applied their technical expertise to FSA's specific business processes, systems and accounting practices...Their workpapers were meticulous and contributed toward the Department of Education and FSA both receiving an unqualified audit opinion on its financial statements...."

U.S. Department of Education

Reducing Duplication of Efforts

The Treasury Franchising effort has achieved efficiencies and generated value internally to Treasury, externally to other agencies, and to the government as a whole. This is demonstrated by reducing or eliminating duplicative/redundant services, implementing best practices, reducing the costs of services, implementing performance measures and benchmarking, and focusing on customer service. Highlights of our efforts and successes follow:

- Reduced the number of service providers through integrated contract and financial management — FedSource provides integrated contract and financial administration. These services are provided to over 2,000 customers government-wide. A primary function of FedSource is to act as the general agent for government agencies in the acquisition process. FedSource performs a value-added function as the consolidator of requirements and the operating agent of the participating agencies.
- Reduced the number of service providers through the consolidation of administrative accounting, travel, procurement and personnel functions —The Administrative Resource Center now provides:
  - 33 entities with administrative accounting services
  - 33 entities with travel services
  - 36 entities with procurement services
  - 20 entities with personnel services

Fostering Competition

Program managers in many agencies are forced to rely upon in-house arrangements for the delivery of common administrative services. Our businesses have been challenging these arrangements by taking customers and revenue away from those providers. We made them sharpen their pencils and create a strategy to deal with competition. These providers have subsequently begun to worry about customer service and as a result they are now concerned about their response time, improving product features, improving their billing process, increased availability, and lower prices.
The following represents various aspects of the

Treasury Franchise Fund in fostering competition:

- Penetration — Customers using services of the Treasury Franchise Fund come from virtually every Federal government agency reflecting the breadth of our competitive area. At the end of FY 2003, the Treasury Franchise Fund Activities in total had entered into agreements with approximately 2,400 customers. Of these, approximately 9% are customers within Treasury and 91% are external to Treasury.
- All goods and services provided by the Business Activities of the Treasury Franchise Fund are done so on a fully reimbursable basis and are completely voluntary (i.e., no mandated services). The customer has freedom of choice and makes purchase decisions based on quality, price, and best value.
- All reimbursable agreements with customers contain a certification statement that they are A-76 compliant. Full costs are made available for customers in performing cost comparisons. All goods and services are fully costed. This allows Franchise Fund management, as well, as potential customers to determine the true cost to the government of the product or service.
- Treasury's Franchise Businesses make extensive use of private sector sources to deliver goods and services to their Federal customers. In FY 2003, FedSource paid 98% of their combined expenses to non-federal sources. The business relationships established with private sector companies for providing products and services are done so under current Federal acquisition regulations. Each of the product groupings is designed to meet the stated needs of the customer. The essential elements of quality, packaging and delivery, combined with volume consolidation, are built into contracts and agreements.

FedSource

"The staff at FedSource is very responsive to requests, and provides financial statements and progress reports whenever they are required. The contractor provided through the FedSource Contract has provided exceptional services from the contract transition point forward. Working with FedSource has allowed the government staff at the CTA to focus on executing their organizational mission, rather than being overwhelmed by contracting issues.

Center for Total Access, Fort Gordon, Atlanta GA

"The only sustainable competitive advantage comes from out-innovating the competition.."

James Morse

The Fund is held to standards that are intended to level the competitive playing field with the private sector and among other Federal reimbursable entities. Activities operating within the Franchise Fund are intended to be self-sustaining, depending on fees from customers in lieu of appropriated dollars to fund operations. A customer's ability to seek alternate sources for services, whether public or private, places the emphasis of franchising on generating customer satisfaction and value.

Administrative Resource Center

"Great service with outstanding customer focus at a very competitive cost."

Department of the Treasury

Achieving Self-sufficiency and Accounting for Full-Cost

Meeting the objective of financial responsibility is primarily demonstrated through full costing and self-sufficiency. Each individual business within the Fund identifies the specific costs of each service line. Based on this analysis, pricing structures are developed which allow the businesses to recover all their costs and maintain a reasonable operating reserve.

The Fund is in compliance with cost accounting standards and guidance, which includes:

- OMB Circular A-76
- The Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Concepts and Standards for the Federal government
- Concepts and Standards for the Federal government and Statement of Federal Financial Accounting Standards Number 7, Accounting for Revenue and Other Financing Sources
- Form and content requirements included in OMB Bulletin No. 01-09

The annual financial statement audit ensures "full-costing" is being performed accurately and applicable laws and regulations are being followed. The purpose of the audit is to:

- Express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, the results of its operations and changes in net position, in conformity with GAAP;
- Report on the Fund's internal control over financial reporting;
- Report on the Fund's compliance with applicable laws and regulations.

The Franchise Fund does not receive appropriation support directly or indirectly. Since inception of the Fund, all activities have been fully reimbursable. Treasury, however, provided the Franchise Fund with $1.2 million from reprogrammed funds to use as startup capital for cash flow purposes. This "corpus" represents the investment of the government in the Fund.

One of the inherent risks with operating in a full-cost environment is the potential for businesses to fail or not generate enough revenue to cover their costs. Since inception, some of the businesses in the Fund have struggled to cover their costs during difficult years. Most of the businesses have been able to make the tough decisions necessary to reduce their costs while increasing their customer base. However, three years ago, one franchise business had

"Progress always involves risk. You can't steal second base and keep your foot on first."

Frederick Wilcox

"Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives."

– William A. Foster

sustained an operating loss and was not meeting the objectives of the Franchise Fund. As a result, their management withdrew the business from the Fund. Although this example is not desirable, it is evidence of the competitive marketplace at work.

Enhancing Customer Satisfaction

In the technological age, we do not forfeit the human aspect of product/service delivery, which is important to our customers. The value we bring to the customers is the high-tech, high touch approach to providing a solution. We don't just offer a "catalog" of services; we provide support to the customers.

Customer feedback is a measure of our concern for the quality of our merchandise and services and our desire for consumer satisfaction. Feedback is a critical form of communication between buyer and seller. This offers us an opportunity to correct immediate problems and can provide for constructive ideas for improving products, adapting marketing practices, upgrading servicing, or modifying promotional material and product information.

Effective feedback mechanisms can result in increased sales, better products, improved personnel performance, and business economies. Our mechanisms used most often include: Immediate service/product follow-up calls, customer surveys, and customer needs analysis.

FedSource

During my 30-year career with the Federal Government, I have grown accustomed to dealing with Government agencies that throw "roadblocks" in the way of managers accomplishing the task at hand. Usually these "roadblocks" result from these agencies complying with their "regulations". Our local contracting Office was no exception to this, which resulted in me spending hours, days and weeks trying to accomplish an almost impossible task. Then, I was introduced to FedSource.

My life changed drastically at this point, and so did my organization. I have since converted most of my local contracts to FedSource and have realized a monetary savings for these services, as well as a tremendous amount of manhour savings. I just let Fedsource do the work and I sit back at this end and reap the credit for the work done. I have saved so much time and money for the Marine Corps that I want to share this well-hidden secret" with anyone and everyone that works for the federal Government. For the first time, I can honestly say I found a Government agency (FedSource) that does everything I ask for, without telling me "you can't do that".

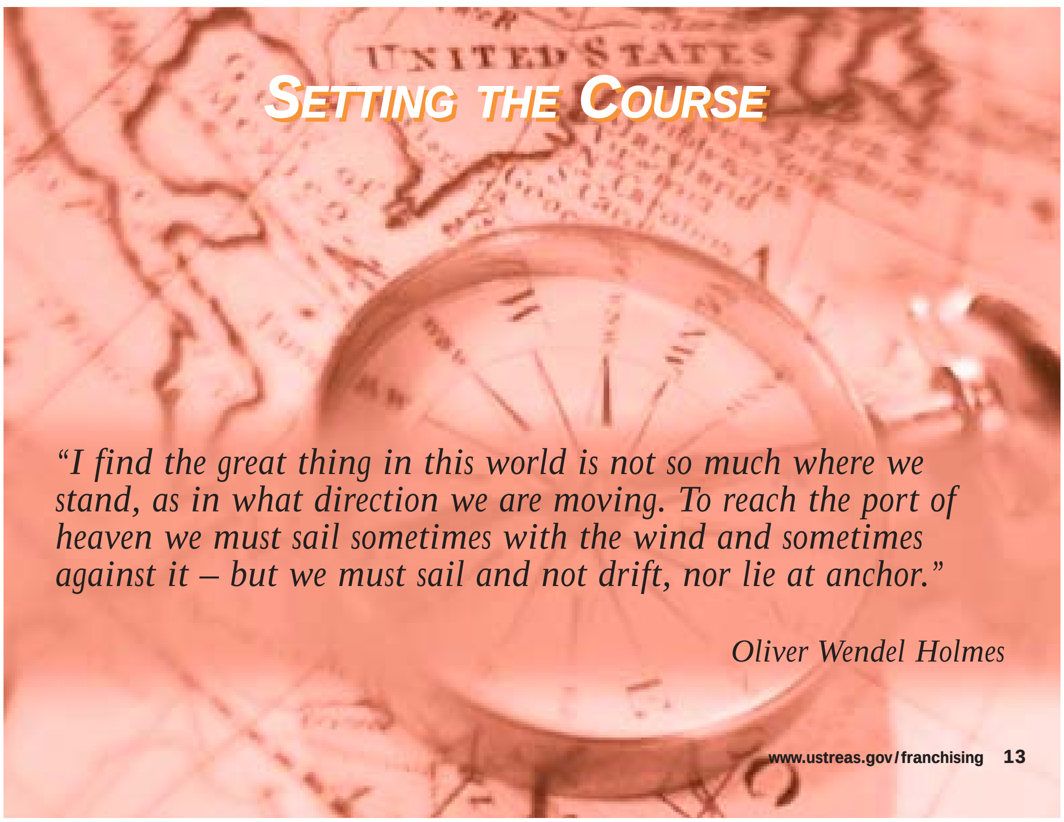
Marine Corps Base, Camp Pendleton, CA

LEADING THE WAY

We move into fiscal year 2004 with a strong financial position while delivering real benefits to our customers, stakeholders and employees. Our purpose is not to simply sell our goods and services. Our goal is to create innovative solutions to our customer's administrative problems. The real measure of our success is not sales or revenue, but the dollar savings recognized by our customers and their ability to focus more of their efforts on their core mission. To achieve these ends, we will need to focus externally, to obtain permanent legislative authority, and internally to enhance our business model.

Building a Strong Foundation

Over the past several years, business growth and revenues have continued to outperform expectations. Our forecast beyond FY 2003 assumes these positive growth trends will continue for the next several years resulting in a more diverse customer base. We cannot allow the allure of a hungry market place to entice us to overextend ourselves beyond our existing infrastructure. We must look ahead and make the important decisions to ensure our systems, processes, and people can meet the ever-growing needs of our customers. This takes a commitment to spending the resources to grow with market demand.



SETTING THE COURSE

"I find the great thing in this world is not so much where we stand, as in what direction we are moving. To reach the port of heaven we must sail sometimes with the wind and sometimes against it – but we must sail and not drift, nor lie at anchor."

Oliver Wendel Holmes

Obtaining Permanent Legislative Authority

The need to have continuity in the delivery of services to our customers and the ability to make the necessary long-term commitment required to build an adequate infrastructure requires a permanent footing. Currently, the FY 2005 budget request for the Treasury Franchise Fund (Fund) has been submitted to OMB, and will be transmitted to Congress. The Budget request contains language that provides for the permanent extension of the Fund.

Security Solutions – FedSource Leads the Way

Federal executives are under increasing pressure to ensure their agency's safety and security. This can be an overwhelming task that covers a broad spectrum of disciplines and job titles. With limited resources and time sensitivities, the task becomes even more difficult. FedSource provides federal agencies with a national administrative resource network, including its new Homeland Defense and Security Program. FedSource helps agencies define their needs and develop customer security solutions to meet those needs.

For example, many times agencies will start their security updates with what seems to be the most obvious area - every day, visible physical security measures such as increased guards and concrete barriers. While that may be a need, it may not necessarily be their highest priority or the best use of limited agency resources. "It's important to think broadly about security programs and develop an enterprise-wide security plan," says Iris Greenberg, Acting Managing Director for FedSource. "It may seem relatively quick and easy to tackle the physical security issues first, but agencies should first look at the whole picture before moving forward."

FedSource can assist agencies looking for a jump-start with their security needs. It provides security consultation to help with plan development, and assist with plan implementation through its training programs, Systems Security

"Qui Audacim Est"
"Those Who Dare"

The franchise concept is captured in this Latin term, literally translated 'Those Who Dare'; which expresses a shift of paradigm from bureaucratic operations to entrepreneurial business methods with reliance on market conditions and competition.

Operations, Global Threat Analysis, Computer Forensic Analysts, and other specialized services like surveillance and incident analysis.

Increasing Efficiencies

The Fund will continue to strive to create efficiencies in the delivery of our products and services as well as in our internal administrative processes. Becoming more efficient and effective will add to our "bureaucracy-free" style of customer service. As the government works smarter, the taxpayer wins.

Our People as Our Most Important Asset

While having robust systems and relevant financial information is important, without quality people—ideas are never generated and decisions are left unmade. The Fund encourages continued learning among its employees, free expression of opinions, and at the same time instills a shared vision and a common direction. Employees are empowered to take on major responsibilities and make decisions that will influence the outcome of their work. Our directors are determined to have a flat management structure to facilitate open and effective communication between the businesses, thereby encouraging the flow of ideas and enabling the Fund to move at a much faster pace.

"No one has a greater asset for his business than a man's pride in his work."

-Mary Parker Follett

The fundamental characteristic of an unaligned team is wasted energy. By contrast, the Fund strives to become more aligned, generating a commonality of direction where individual energies are harmonized. The result is a shared purpose, mutual vision, and the understanding of how to complement one another's efforts.

"Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage."

- Victor Kiam

A Message From the Chief Financial Officer

The Treasury Franchise Fund began with the idea that competition for administrative services could improve customer service, drive down costs, make federal agencies more efficient and in the end - benefit the taxpayer. The phenomenal growth of the Fund simply confirms that we have been on the right track since inception. With such growth comes significant responsibility. The fund has taken a simple approach to managing this success.

Vision + Focus + Execution = Managed Growth + Financial Stability

FY 2003 has been another successful year. However, the Fund does not measure financial success by increased revenue or a bigger bottom line as in the private sector. For us, financial success is ensuring that our businesses are healthy today and strong enough to meet the challenges of tomorrow. This success is evidenced by our financial statements and the strengthening of all our significant business measures.

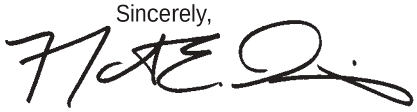
As mentioned above, the Fund has managed to build a strong business model focused on controlled growth and resulting in financial stability. However, its what's behind the numbers that make the Fund so successful. Our customer's have shared, "it's more than the dollar savings" that keep them coming back. The reduced hassle and increased flexibility they receive allow them to focus on their core missions and accomplish more. This combination of value and efficiency is the cornerstone of the "franchising" vision.

Throughout our 8-year history, the Treasury Franchise Fund has been an entrepreneur in addressing the new financial management reforms. We have set ambitious goals for ourselves to remain a leader in this area. The Fund is prepared to meet the financial challenges of the future and to serve the taxpayer as responsible stewards.

I would like to personally thank the following people for the work they perform as individual financial managers or accounting service providers:

Nevelyn Jones – Treasury Agency Services
Debbie Flores – FedSource Denver
Ialene Proctor – FedSource Baltimore
Sandy Schramm – FedSource Seattle
Bonnie Boss – FedSource Cincinnati
Carolyn Kent – FedSource San Antonio
Linda Burton – FedSource San Antonio
Paul Deuley – Administrative Resource Center
Matt Bumgarner – Administrative Resource Center
Jane Barnhart – FedSource St. Louis
Yolanda Martinez – FedSource Chicago
Salvatore (Sam) Parisi – FedSource Los Angeles
Marilyn Wiles – Federal Consulting Group
Marie Larson – FedSource Beaufort

Sincerely,



Martin E. Davis
Chief Financial Officer

Progress in Meeting Performance Goals

The Treasury Franchise Fund has established performance goals and measures consistent with the intent of the legislation establishing and operating criteria for franchise funds, i.e., financial self-sufficiency, competition, compliance, and customer service.

	Benchmark	FY 2003	FY 2002
GOAL: Ensure Business Activities are Self-Sufficient			
1. Annual financial results are equal to or greater than break even (total expenses equal total revenues)	Positive Net Position	Met	Met
2. Current Ratio	1.2	1.3	1.4
GOAL: Customer Satisfaction			
1. Satisfaction Approval Rating	80% Approval	Exceeded	Exceeded
2. Sales Volume Growth	10% increase	34%	40%
3. Growth or Decline of Customer Base	10% increase	12%	18%
GOAL: Ensure Compliance with Legal & Regulatory Requirements			
1. Results of Management Controls Reviews	No Deficiencies	Met	Met
2. Results of Annual Audit	Unqualified "Clean" Opinion	Met	Met
GOAL: Ensure Competitiveness			
1. Program Voluntary	All agreements have customer escape clause	Met	Met
2. Growth in Customer Base	10% increase	12%	18%

ANNUAL ASSURANCE STATEMENT

The Treasury Franchise Fund places a high level of emphasis on maintaining adequate management controls. As required by the Federal Mangers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and the Reports Consolidation Act of 2000, the Treasury Franchise Fund has evaluated both its management controls and financial management systems. Our system of management controls is designed to provide reasonable assurance that:

- Programs achieve their intended results;
- Resources are used in accordance with the Fund's mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed;
- Controls are sufficient to minimize any improper or erroneous payments;
- Performance information is reliable;
- Systems security is in substantial compliance with al relevant requirements; and
- Continuity of operations planning in critical areas is sufficient to reduce risks to reasonable levels.

Various methodologies are used to determine if the management control systems and financial management systems are in overall compliance with standards prescribed by the Comptroller General of the United States and guidelines issued by the Office of Management and Budget (OMB).

- Each business activity performs an annual evaluation of its processes and procedures as well as its internal systems.
- The Administrative Resource Center, the Fund's primary accounting, procurement and personnel service provider, is part of the Bureau of the Public Debt's Management Control Plan and therefore undergoes periodic reviews. The Bureau of the Public Debt also has periodic audits of its mainframe computer system and ARC contracts for a SAS-70 review each year.
- Fund management periodically visits the businesses and reviews the controls established throughout the workflow.
- Each individual business is included in a 4-year audit site-visit schedule. This ensures detailed audit scrutiny of at least three businesses each year. These visits are performed in conjunction with the annual financial statement audit.

The 12 Franchise businesses and the accounting office in the Bureau of the Public Debt have been subject to review and evaluation including a financial statement audit by an independent public accounting firm. As a result, our systems of management control and the financial management systems provide reasonable assurance that the Fund is in compliance with the aforementioned standards. Our financial management/accounting systems conform to generally accepted accounting principles; and the relevant financial management system requirements and information objectives of OMB, including implementation of the Standard General Ledger at the transaction level. No material weaknesses or reportable conditions are being reported.

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

U.S. Department of the Treasury
Washington, D.C.

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury Franchise Fund as of September 30, 2003 and 2002, and the related consolidated statements of net cost and results of operations and changes in net position, and the combined statements of budgetary resources and financing for each of the years ended September 30, 2003 and 2002. These principal statements are the responsibility of the U.S. Department of the Treasury. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the principal statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury Franchise Fund as of September 30, 2003 and 2002, the results of its operations, changes in its net position, budgetary resources, and financing for each of the years ended September 30, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2003 on our consideration of the U.S. Department of the Treasury Franchise Fund's internal control over financial reporting and a report dated October 10, 2003 on its compliance with laws and regulations.

The information in "Management's Discussion and Analysis" is presented for the purpose of additional analysis and is required by OMB Bulletin No. 01-09. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Arlington, Virginia
October 10, 2003

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

U.S. Department of the Treasury
Washington, D.C.

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Department of the Treasury Franchise Fund as of and for the year ended September 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the U.S. Department of the Treasury Franchise Fund (the Fund) is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the U.S. Department of the Treasury, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
October 10, 2003

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

U.S. Department of the Treasury
Washington, D.C.

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Department of the Treasury Franchise Fund as of and for the year ended September 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the U.S. Department of the Treasury Franchise Fund's (the Fund) internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal control related to performance measures reported in "Management's Discussion and Analysis," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the U.S. Department of the Treasury, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
October 10, 2003

Treasury Franchise Fund
Consolidated Balance Sheet

As of September 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$72,199,030	$65,142,254
Accounts Receivable (Note 3)	65,549,359	33,755,961
Advances & Prepayments	68,535	361,817
Total Intragovernmental Assets	**137,816,924**	**99,260,032**
Assets with the Public		
Accounts Receivable (Note 3)	426,097	676,452
Advances & Prepayments	103,005	16,259
Property, Plant & Equipment, Net (Note 5)	3,138,198	4,075,101
Total Assets with the Public	**3,667,300**	**4,767,812**
TOTAL ASSETS	**$141,484,224**	**$104,027,844**
LIABILITIES		
Intragovernmental Liabilities		
Accrued Liabilities (Note 6)	452,563	452,274
Advances From Others	31,326,014	36,181,972
Total Intragovernmental Liabilities	**31,778,577**	**36,634,246**
Liabilities with the Public		
Accounts Payable	17,869,192	0
Accrued Liabilities (Note 6)	56,875,381	39,475,073
Advances From Others	10,930	18,815
Total Liabilities with the Public	**74,755,503**	**39,493,888**
TOTAL LIABILITIES	**$106,534,080**	**$76,128,134**
NET POSITION		
Invested Capital (Note 4)	4,128,418	4,128,418
Cumulative Results of Operations	30,821,726	23,771,292
Total Net Position	**34,950,144**	**27,899,710**
TOTAL LIABILITIES AND NET POSITION	**$141,484,224**	**$104,027,844**

The accompanying notes are an integral part of these financial statements.

Treasury Franchise Fund
Consolidated Statement of Net Cost and Results of Operations

For the years ended September 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002
CONSOLIDATED / INTEGRATED ADMINISTRATIVE MANAGEMENT		
Costs	$345,940,703	$253,811,829
Less: Earned Revenue	351,860,058	258,718,268
Net Cost	(5,919,355)	(4,906,439)
Other Financing Sources	380,220	311,152
Current Results of Operations (Other Financing Sources less Net Cost)	**6,299,575**	**$5,217,591**
FINANCIAL SYSTEMS, CONSULTING AND TRAINING		
Costs	10,149,451	11,270,230
Less: Earned Revenue	12,181,485	12,058,542
Net Cost	(2,032,034)	(788,312)
Other Financing Sources	455,053	813,282
Current Results of Operations (Other Financing Sources less Net Cost)	**2,487,087**	**$1,601,594**
FINANCIAL MANAGEMENT ADMINISTRATIVE SUPPORT SERVICES		
Costs	53,452,309	39,023,795
Less: Earned Revenue	49,903,487	38,996,021
Net Cost	3,548,822	27,774
Other Financing Sources	1,812,594	1,359,447
Current Results of Operations (Other Financing Sources less Net Cost)	**($1,736,228)**	**$1,331,673**
FUND TOTAL		
Costs (Note 7)	409,542,463	304,105,854
Less: Earned Revenue	413,945,030	309,772,831
Net Cost	(4,402,567)	(5,666,977)
Other Financing Sources (Note 8)	2,647,867	2,483,881
Current Results of Operations (Other Financing Sources less Net Cost)	**$7,050,434**	**$8,150,858**

The accompanying notes are an integral part of these financial statements.

Treasury Franchise Fund
Consolidated Statement of Changes in Net Position

For the years ended September 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002
INVESTED CAPITAL		
Beginning Balance (As reported 9/30)	$4,128,418	$3,746,219
Net Addition to Invested Capital (Note 4)	0	382,199
Ending Balance	**$4,128,418**	**$4,128,418**
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance (As reported 9/30)	$23,771,292	$15,620,434
Current Year Results of Operations	7,050,434	8,150,858
Ending Balance	**$30,821,726**	**$23,771,292**
TOTAL NET POSITION ENDING BALANCE	**$34,950,144**	**$27,899,710**

The accompanying notes are an integral part of these financial statements.

Treasury Franchise Fund
Combined Statement of Budgetary Resources

For the years ended September 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002
BUDGETARY RESOURCES		
Unobligated Balance Carried Forward	$139,473,606	$104,033,793
Budgetary Resources Transferred-Out	0	(529,486)
Spending Authority from Offsetting Collections	504,426,792	353,696,594
Adjustments	19,009,719	15,120,536
Total Budgetary Resources	**$662,910,117**	**$472,321,437**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	460,608,651	332,847,831
Unobligated Balances Available	202,301,466	139,473,606
Total Status of Budgetary Resources	**$662,910,117**	**$472,321,437**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred	460,608,651	332,847,831
Less: Spending Authority From Offsetting Collections and Adjustments	523,436,511	368,817,130
Obligated Balance, Net - Beginning of Period	(74,332,846)	(49,399,187)
Obligated Balance - End of Period	130,102,437	74,331,352
Net Outlays	**($7,058,269)**	**($11,037,134)**
Reconciliation of Net Outlays		
Disbursements	377,425,497	311,794,745
Collections	(384,483,766)	(322,831,879)
Subtotal	(7,058,269)	(11,037,134)
Less: Offsetting Receipts	0	0
Reconciled Net Outlays	**($7,058,269)**	**($11,037,134)**

The accompanying notes are an integral part of these financial statements.

Treasury Franchise Fund
Consolidated Statement of Financing

For the years ended September 30, 2003 and 2002

	Fiscal Year 2003	Fiscal Year 2002
OBLIGATIONS & NONBUDGETARY RESOURCES		
Obligations Incurred	$460,608,651	$332,847,831
Less: Spending Authority from Offsetting Collections and Adjustments	523,436,511	368,817,130
Financing Imputed for Cost Subsidies	2,647,867	2,483,881
Total Obligations as Adjusted and Nonbudgetary Resources	**($60,179,993)**	**($33,485,418)**
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Net (Increase)/Decreases In Goods, Services or Benefits Ordered but Not Yet Provided	(28,101,546)	(12,007,468)
Net Increase in Unfilled Customer Orders	82,930,056	39,230,951
Net Increase in Costs Capitalized on the Balance Sheet	(12,767)	(872,517)
Resources from Transferred-In Invested Capital	0	1,014,834
Other	19,137	(205,306)
Total Resources That Do Not Fund Net Costs of Operations	**$54,834,880**	**$27,160,494**
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	949,671	545,147
Writeoff Obsolete Inventory Held for Resale	0	112,800
Other	(7,125)	0
Total Costs That Do Not Require Resources	**942,546**	**$657,947**
NET COST OF OPERATIONS	**($4,402,567)**	**($5,666,977)**

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

A. Reporting Entity: The Treasury Franchise Fund (the Fund) was authorized by the Government Management and Reform Act of 1994 and The Treasury Department Appropriation Act of 1997 (P.L. 104-208), as amended by the Treasury Department Appropriations Act of 2001 (P.L. 106-554). The Fund provides administrative support services on a competitive, fee-for-service, and full-cost basis and currently consists of four separate "business activities" (with FedSource having nine individual locations). Separate treasury accounts have been established for most of these entities to facilitate financial reporting. The financial statements presented in this report are consolidated to reflect the activity of the Fund as a whole. The accounts established to date are:

FedSource – Denver & FedSource – Beaufort	*20X4560*
FedSource – Los Angeles	*20X4560.001*
FedSource – Seattle	*20X4560.002*
FedSource – Cincinnati	*20X4560.003*
FedSource – Baltimore	*20X4560.004*
Treasury Agency Services	*20X4560.005*
Federal Consulting Group	*20X4560.006*
FedSource – St. Louis	*20X4560.007*
FedSource – Chicago	*20X4560.008*
FedSource – San Antonio	*20X4560.009*
Administrative Resource Center	*20X4560.010*

P.L. (104-208) allows the Fund to retain its earnings in excess of costs to the extent that they are needed to establish a reasonable operating reserve. Earnings over costs that are in excess of a reasonable operating reserve will be transferred to an account to support initiatives of the Secretary of the Treasury (as prescribed in P.L. 104-208) or returned to Treasury's General Fund. Reasonable operating reserves have been defined as those funds necessary to cover the cost of performing our services plus investments necessary to continue to provide those services.

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of the Fund in conformity with Generally Accepted Accounting Principles (GAAP), and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants.

These financial statements are provided to meet the requirements of the Government Management and Reform Act (GMRA) of 1994. They consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and Results of Operations, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Consolidated Statement of Financing.

While these financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

C. Pension Costs, Other Retirement Benefits and Other Post Employment Benefits

The Fund recognizes the full costs of its employees' pension benefits, however, the assets and liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Fund.

Fund employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in FERS, TSP accounts are automatically established and the Fund makes mandatory 1 percent contributions to the accounts. In addition, the Fund makes matching contributions, ranging from 1 to 4 percent of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, matching contributions are not made to the TSP accounts established by CSRS employees.

After retirement, FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program. In these instances, the Fund remits the employer's share of the required contribution.

2. Fund Balance with Treasury

Fund Balance With Treasury represents funds remaining on deposit in the Fund's revolving fund account with Treasury. There are no restrictions on the use of the funds held, thus they are available to pay current liabilities of the Fund.

3. Accounts Receivable

Intra-governmental accounts receivable represent billed and unbilled revenue earned for services provided to other federal government agencies. Accounts receivable with the public consists of amounts due from entities outside the federal government.

Past experience for the Fund shows the majority of receivables will be collected. The dollar amount of receivables that have not been collected has been very small. Therefore, an allowance for doubtful accounts is not estimated.

4. Net Position

The Fund's net position is composed of invested capital and the cumulative results of operations.

Invested Capital: To facilitate the start-up of the Fund, the Department of the Treasury transferred $1.2 million of appropriated funds in FY 1996 to provide the initial cash needed to begin franchise operations. The initial transfer represents the Government's investment in the Fund. The $4.1 million of invested capital includes the transferred appropriation and the Business Activities' initial investments in the Fund totaling $2.9 million (See table on Page 29). The Business Activities' initial investments represents $4.0 million of cash brought into the fund, reduced by $1.1 million in accrued leave liabilities that required funding as they were admitted.

Cumulative Results of Operations: The cumulative results of operations represent the net difference between revenue and expenses and gains and losses incurred since the inception of the Fund.

5. Property, Plant and Equipment, Net

The Fund has established fixed asset capitalization thresholds pursuant to the Department of the Treasury's Accounting Policy Memorandums No. OAIC 99-01 and OAIC 00-02. The thresholds adopted by the Fund are:

- Capitalize acquisitions that exceed $50,000;
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than $5,000 and less than $50,000) that exceed $500,000; and
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than $50,000) that exceed $500,000.

The Fund's property, plant and equipment is recorded at cost and depreciated using the straight-line method over the asset's estimated useful life, with six months depreciation taken in the first and last years. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred (See table on Page 29).

6. Accrued Liabilities

The accrued liabilities of the Fund are comprised of program expense accruals, payroll accruals, and funded leave accruals (See graph on Page 29). The program and payroll expense accruals represent expenses that were incurred prior to year-end but were not paid (See table on Page 29).

Employee leave liability accruals represent the current value of unpaid annual, restored annual and compensatory leave at year-end. The leave liability for the Fund is required to be funded, thus budgetary resources have been set aside to cover any necessary payments related to the liability. Leave balances brought into the fund by the business activities reduced their initial invested capital balances, as described in Note 4, and are also fully funded.

Sick leave and other types of non-vested leave are not accrued and are charged to operating costs only when taken.

Progression of Invested Capital Balance	FY 2003	FY 2002
Beginning Balance at 09/30/03	**$4,128,418**	$ **3,746,219**
Additions:	0	1,014,834
Reductions:	0	632,635
Ending Balance at 09/30/03	**$4,128,418**	**$ 4,128,418**

Schedule of Depreciation

	Depreciation Method	Service Life (in years)	Cost	Accumulated Depreciation	FY 03 Book Value
Information Technology Software	Straight-line (1/2 year convention)	5	$5,298,642	$2,1602444	$3,138,198
ADP Equipment	Straight-line	3	$36,653	$36,653	0
TOTAL			**$5,335,295**	**$2,197,097**	**$3,138,198**

There are no restrictions on the use of the Fund's general Property, Plant and Equipment.

Schedule of Accrued Liabilities		FY 2003	FY 2002
Program Expense Accrual	Intragovernmental	260,319	310,002
	With the Public	53,432,896	36,588,910
	TOTAL	**$53,693,215**	**$36,898,912**
Payroll and Annual Leave Accrual	Intragovernmental	192,244	142,272
	With the Public	3,442,485	2,886,163
	TOTAL	**3,634,729**	**$3,028,435**
Total Accrued Liabilities	Intragovernmental	452,563	452,274
	With the Public	58,875,381	39,475,073
	TOTAL	**$57,327,944**	**$39,927,347**

7. Operating / Program Costs

Costs by major budgetary object classification are as follows:

8. Financing Sources (Other than Exchange Revenue)

The Fund's activities are financed through the revenue it receives for the services and products it provides. In order to show the full cost of operations, the Fund also shows imputed costs and imputed revenue. The amount of imputed costs and financing sources recognized are as follows:

The Office of Personnel Management (OPM), rather than the agency for which the employee works, pays some pension and benefit costs of Federal agencies. The pension and benefit costs paid by OPM are composed of three basic items: pension expense, health insurance expense, and life insurance expense. The payment of those costs represents imputed financing sources for the Fund. The Balance Sheet does not reflect the related liability because the Fund has no obligation to pay those costs (these will be paid by the Office of Personnel Management).

"Salary and Benefits Paid by Other Agencies" represents the salary and benefits of personnel detailed from other agencies (at no cost to the Fund) that add staff to one entity in the Fund. These detail assignments represent executive training for the individuals detailed and thus the agency providing the detailee has determined, consistent with appropriations law, that the value of the training received equals the cost of the detailed employee's salary and benefits. The Fund has recognized the salary and benefits of these employees as costs of the Fund and has recognized an offsetting financing source for the payment of these costs by the agencies authorizing the detail assignments.

Budgetary Object Classification	**FY 2003**	**FY 2002**
Personnel & Benefits	$42,370,568	$35,610,231
Travel & Transportation	1,177,112	954,785
Rents, Communications & Utilities	3,249,383	2,695,087
Printing & Reproduction	1,234,618	894,962
Contractual Services	353,521,292	258,262,832
Supplies & Materials	666,281	767,443
Equipment	7,313,075	4,919,745
Miscellaneous	10,134	769
TOTAL	**$409,542,463**	**$304,161,854**

Schedule of Financing Sources	**FY 2003**	**FY 2002**
Post Retirement Benefits to be Paid by OPM	2,532,910	$1,980,515
Salary Benefits Paid by Other Agencies	114,957	503,366
TOTAL FINANCING SOURCES	**2,647,867**	**$2,483,881**

9. Commitments and Contingencies

Operating Leases: The Business Activities enter lease agreements for facilities needed to conduct their required functions. These agreements do not meet the criteria for recognition as capital leases. Combined future payments due in accordance with the lease agreements at September 30, 2003, are as follows:

Scheduled Operating Lease Future Payment	
FY 2004	$1,428,439
FY 2005	1,416,388
FY 2006	1,420,471
FY 2007	1,097,356
FY 2008	388,399
and thereafter	206,414
TOTAL FUTURE PAYMENTS	$5,957,467

Undelivered Orders: At September 30, 2003, the Fund had $56,442,445 in goods and services that had been ordered, but not yet received.

Contingencies: There are no contingencies that require disclosure.

Treasury Franchise Fund Advisory Board

Barry Hudson - Chairman & Executive Secretary

Mary Ellen Trevino - Vice Chair & Chief Operating Officer, FedSource-San Antonio

Iris Greenberg - Acting Managing Director & Chief Operating Officer, FedSource-Los Angeles

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